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CHAIRWOMAN'S REPORT

ON

A PLAN OF ACTION FOR FAMILIES: RESPONSE TO A NATIONAL EMERGENCY

SELECT COMMITTEE ON CHILDREN, YOUTH, AND FAMILIES

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THIS REPORT HAS NOT BEEN OFFICIALLY ADOPTED BY THE SELECT COMMITTEE ON CHILDREN, YOUTH, AND FAMILIES THEREFORE MAY NOT REFLECT THE VIEWS OF ITS MEMBERS

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INTRODUCTION

A drought devastates crops. Our government acts. An earthquake flattens a distant land. Our government acts. A bank founders. Our government acts.

Every day in every corner of America our own children are in trouble -- devastated by AIDS, flattened by malnutrition, or foundering in poverty. Yet our government not only doesn't act, it refuses to act.

How else to describe the President's recent rejection of the National Commission on Children? Our government musters the political will and financial resources to rebuild Poland and renew China's most-favored nation status. But what about our country's most precious resource. Why not grant America's children most-favored status? Is that asking too much? Is that something we cannot afford -- for our children today and for our country's future tomorrow?

National priorities have been to fund foreign aid and defense; if there is anything left over, then we give the crumbs to the children. When families sit around their kitchen table discussing the family budget, they don't decide to forego their children's immunization or their children's basic needs. Government should use the "kitchen table method" to establish national priorities.

Over the last decade, the chorus of voices for children and their families has grown. The Select Committee on Children, Youth, and Families, corporate executives, renown scholars in our premier universities and think tanks, former Presidents and influential policymakers have joined in the call for a greater commitment to and substantial investments in prevention programs for the nation's youngest, most vulnerable children. Scores of reports have included such recommendations.

Most recently, the National Commission on Children, a politically diverse group of 34 members appointed by the President, the President pro tempore of the U.S. Senate, and the Speaker of the U.S. House of Representatives released a comprehensive and compelling report on the state of the nation's children. The Commission's work strongly confirms the findings of leading experts and past Commissions.

The Commission members agreed to many far-reaching recommendations to ensure the economic security and well-being of all of the nation's children, with dissent only around issues of national health care. Highlights of the Commission's recommendations included

substantial increases for the Special Supplemental Food Program for Women, Infants and Children (WIC), and Head Start. The Commission also recommended significant tax relief for families with children.

Implementation of all of the Commission's recommendations will cost approximately $52 to $56 billion in new federal funds in the first year. With the exception of the $9 billion for the health care proposal, the majority of Commissioners supported these expenditures because they are investments in our country's future.

Despite the overwhelming bipartisan support for the Commission's plan, which included a variety of financing proposals, the President dismissed the Commission report outright because of the cost.

In spite of the President's dismissal, the Commission's recommendations deserve our support. Congress must take up the Commission's challenge to move "beyond rhetoric."

How?

The first step is creation of KIDSNET -- a plan to phase-in full funding for a core group of successful programs crucial to the health and well-being of children -- WIC, Head Start, and Childhood Immunization. These programs work. Everybody knows and says they do. The time to act on this knowledge is long overdue.

President Bush should lead the way in calling for a state of emergency to protect the nation's children. If he fails to do this, Congress should use its authority to do so.

The second step -- the Family Tax Break -- merges two major proposals in Congress to alleviate the tax burden families have had to increasingly shoulder over the last decade: H.R. 1277 to expand the personal exemption and the revenue-raising provisions of H.R. 2242, the "Working Family Tax Relief Act."

Expanding the personal exemption will offer great relief to middle-income families who have carried a disproportionate share of the tax burden, and H.R. 2242 lays out an equitable plan of raising the revenues to pay for tax relief. Merging both plans will restore tax fairness to families.

The Congress can take these first steps to begin implementation of the National Commission's recommendations.

The cost of KIDSNET is minimal especially compared with what we have expended for other national emergencies, such as aid to Poland or bailing out the Savings and Loans. The Family Tax Break is fair and revenue neutral.

The evidence is in about what works. Commission recommendations and campaign rhetoric are overflowing. All that is missing is action. In this time of national emergency, the challenge before us is to act without further delay.

PART I: KIDSNET

U.S. CHILDREN AND THEIR FAMILIES: A GROWING NATIONAL EMERGENCY

American children are in crisis. Their plight is a national emergency.

The recent report of the National Commission on Children has reaffirmed the findings of the Select Committee on Children, Youth, and Families: "... at every age, among all races and income groups, and in communities nationwide, many children are in jeopardy."

After a decade of economic expansion, the United States still has a higher percentage of children in poverty than either Western Europe or Canada. In 1989, one out of five American children lived in poverty -- a 24% increase over 1979 -- compared with one out of nine adults.

Unlike 21 other developed nations, the United States does not have a national health program which provides medical care to virtually all of its population. Yet, the United States spends a greater proportion of its wealth on health care than any other country.

More than nine million children have no health insurance, nearly 40,000 babies die each year before their first birthday, millions of children are exposed to the toxic effects of lead, and more than 350,000 babies a year are born exposed to drugs.

This year, one in four students will not graduate from high school with his or her peers. Another one of those four will graduate, but will be as deficient in basic skills and work habits as dropouts. It is estimated that by 1995, 14 million Americans will be unprepared for the jobs that are available.

The nation's failure to act places millions of children and their families in peril. This failure constitutes a national emergency.

Despite all we know about the success of cost-effective early childhood prevention programs, too many children enter school without full emotional, physical or cognitive development. Their social and academic failure portends this nation's economic ruin in the 21st century.

KIDSNET: RESPONSE TO A NATIONAL EMERGENCY

Congress has seen fit in times of national emergency to protect programs of national security from the vagaries of the annual budget process. The Savings and Loan bailout and Desert Storm are but two examples.

The state of the nation's children should be considered no less of a national emergency. Children have fallen through a worn and tattered safety net in record numbers.

To replace that safety net, we need a KIDSNET, an emergency measure to protect the nation's children from immediate harm and to secure their future economic independence. A multi-year plan, KIDSNET would allow a phase-in of sufficient funds **before the year 2000,** to allow a core group of proven cost-effective programs, including Head Start, WIC, and Childhood Immunization, to serve all eligible young children.

Compared with defense spending and the S&L crisis, the cost of fully funding these programs is minimal. If the President and Congress agree that our children constitute as much of a national emergency as Desert Storm and Savings and Loans, then the Budget Enforcement Act of 1990 (P.L. 101-508) allows us to fully fund these programs without requiring new revenues or offsets.[1]

KIDSNET amends the Budget Enforcement Act to declare Head Start, WIC, and Childhood Immunization emergency actions until all of the eligible population receive services. This will allow adequate appropriations in each of fiscal years 1992-1996. Such action would also free up limited funds for other critical and effective programs that benefit children, but have suffered as a result of serious funding restrictions imposed by last year's budget agreement.

Objections to cost are fallacious. We can no longer afford to halfheartedly proceed with slow and minimal investments. We no

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[1]Section 251(b)(2)(D): Emergency appropriations. -- (i) If, for fiscal year 1991, 1992, 1993, 1994, or 1995, appropriations for discretionary accounts are enacted that the President designates as emergency requirements and that the Congress so designates in statute, the adjustment shall be the total of such appropriations in discretionary accounts designated as emergency requirements and the outlays flowing in all years from such appropriations.

longer have the luxury or the time to ponder whether our nation will be able to compete in the world marketplace during the next century. The grace period for deliberation is over.

PREVENTION PROGRAMS WORK, SAVE MONEY, BUT EXCLUDE MANY CHILDREN

Head Start

Experts agree, investing in early intervention and prevention programs improves academic and social achievement and is cost effective.

For the past 25 years, Head Start has topped the list of successful programs and has provided an invaluable service to millions of low-income children and their families. Today, 548,000 low-income children are served by more than 1,300 grantees.

The benefits of Head Start are well documented. Studies are virtually unanimous that children show significant immediate gains in cognitive ability, self-esteem, achievement motivation, and social behavior as a result of Head Start participation. Children who attended Head Start are less likely to fail a grade in school or to be assigned to special education than children never enrolled in Head Start.

And because Head Start provides not only early childhood education, but comprehensive and intensive health and social support as well, children's health and motor development are also improved.

Head Start parents are also engaged in a unique way -- through the establishment of parent advisory councils and employment training and job opportunities.

Given that only the most severely disadvantaged children can be served by the program currently (in 1988, 75% of all Head Start families had incomes below $9,000), the gains Head Start children receive are even more impressive.

Report after report from government, universities, medical schools, business groups and think tanks demonstrate that investments in prevention for our youngest, most vulnerable children can save their lives -- and save billions of dollars, too.

As the Select Committee documented in "Opportunities for Success: Cost-Effective Programs for Children, Update 1990," every $1.00 invested in quality preschool education returns $6.00 in savings because of lower costs of special education, public assistance, and crime.

Nevertheless, millions of children who could benefit most still fail to receive these services. Recent expansions in Head Start authorize full funding to ensure that all eligible preschoolers are served by FY 1994, but such insurance is dependent on continued federal appropriations.

Despite the increase Congress afforded Head Start last year, at least 75% of eligible, low-income children ages 3-5 are still excluded from the program.

Childhood Immunization

Eradication of the major childhood illnesses is among the most significant medical breakthroughs of this century. Yet, large numbers of non-immunized preschoolers threaten a return of communicable disease outbreaks that may seriously affect children's health, as well as the health of the general public.

In 1985 (the latest year for which data are available), at least 25% of children ages 1 to 4 were not immunized against most childhood diseases. From a 1990 Centers for Disease Control survey of first and fifth grade students in selected cities, the percentage of children vaccinated by age 2 against measles ranged from only 51% in Jersey City to 79% in Pittsburgh.

As a result, the incidence of purely preventable childhood diseases, such as measles, is on the rise -- some 30,000 children fell victim to measles in 1990, with the highest incidence in the unvaccinated preschool population. More children died of measles last year than in any other year since 1971.

Other countries manage to do much better. Immunization rates for preschool children against diphtheria, tetanus, and pertussis average 41% higher in many Western European nations than in the United States, and mean polio immunization rates are 67% above U.S. figures.

During the 1960s, assessments of the immunization program for children against the major diseases of rubella, mumps, measles, polio,

diphtheria, tetanus, pertussis and meningitis have shown dramatic declines in the incidence of most of these childhood illnesses because of widespread immunization. Over 23,000 cases of mental retardation were prevented and 7,100 children's lives saved from 1963 to 1989 because of measles immunizations alone.

Over $14 is saved for every $1 invested in the measles, mumps and rubella vaccine. The cost-benefit ratio for polio immunization is more than 10 to 1. The Centers for Disease Control estimates that savings are approximately $1 billion per year for polio and $500 million per year for measles.

WIC

In 1986, after much delay, the U.S. Department of Agriculture released a five-year, $5 million, five-volume study -- the most comprehensive review ever undertaken of WIC, which unmistakably documented significant effects of participating in WIC. The study reported that WIC participation reduces fetal deaths by one-third; reduces by up to 25% the number of premature births among high risk and minority mothers; improves the diets of pregnant women and children; brings more women into prenatal care earlier; improves the likelihood that children will have a regular source of medical care and be better immunized; and shows evidence of improved cognitive development among infants of participating WIC mothers, and among preschoolers who became WIC participants as infants.

In addition, one of the four studies in the evaluation, an historical study, found an increase in birthweight of 23 to 47 grams.

In "Opportunities for Success: Cost-Effective Programs for Children, Update 1990," the Select Committee documented further evidence that WIC is highly beneficial as well as cost-effective. A recent five-state study based on 105,000 Medicaid births conducted by the U.S. Department of Agriculture found that for every dollar spent on the prenatal component of WIC, the associated savings in Medicaid costs during the first 60 days after birth ranged from $1.77 to $3.13 for newborns and mothers, and from $2.84 to $3.90 for newborns alone.

The Congressional Budget Office estimates that in FY 1991, 4.7 million pregnant and postpartum women, infants and children up to age five will receive WIC benefits. Despite the demonstrated success of the WIC program, 45% of all low-income, nutritionally at-risk women, infants and children cannot receive benefits.

COST OF INACTION DWARFS COST OF KIDSNET

The ultimate emergency we now face involves millions of children who could be lost to poverty and ill health if we fail to act. The fiscal costs of our neglect are severe:

In one year, functionally illiterate adults cost $224 billion in welfare payments, crime, poor job performance, and remedial education.

Each year's class of high school dropouts will cost the nation $240 billion in lost earnings and foregone taxes over their lifetimes.

Lost economic productivity attendant to illness and early death compounds the impact of rising health care expenditures. In 1980, the total costs of illness equalled nearly 18 percent of GNP.

According to an unpublished report of the White House Task Force on Infant Mortality, each of the nearly 40,000 infant deaths each year represents an estimated $380,000 in lost productivity.

Low birthweight in newborns costs federal, state, and local governments at least $370 million a year for special education.

As childhood communicable diseases escalate among unimmunized preschoolers, so do the costs. The cost of treating congenital rubella syndrome alone is $354,000 over a lifetime.

By contrast, the cost of doing nothing is much greater than the cost of KIDSNET:

According to the Congressional Budget Office, the cost of phasing in full funding over the next five years for WIC and Head Start and for ensuring that the nation's children are fully immunized against major communicable diseases[2] will cost an additional $1.4 billion in FY 1993, rising to an additional $8.3 billion by FY 1996 (TABLE 1).

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[2]The President's Interagency Task Force on Childhood Immunization, headed by the Public Health Service, recommended a $91 million increase in FY 1993 over current funding levels for the childhood immunization program to ensure full immunization of all children. Congress will appropriate close to that amount in FY 1992. The Congressional Budget Office's estimate includes the amount needed to sustain current services through FY 1996 at a level requested by the House, $298 million for FY 1992.

PART II: RESPONSIBLE FAMILY TAX RELIEF

MIDDLE-INCOME FAMILY SQUEEZE

America's families were hit with a double economic whammy during the 1980s. They saw a combination of federal, state, and local taxes, along with social security taxes, take an even bigger bite out of their family income. At the same time, their net incomes stagnated or declined, despite their efforts to keep up by sending a second earner into the labor force. Meanwhile, the cost of raising a child continues to climb. The Department of Agriculture estimates the cost of raising a child born in 1990 through age 17 at $151,170 for low-income families, $210,070 for middle-income families, and $293,400 for upper-income families.

In fact, the 1980s were neither kind nor gentle to American families. With the exception of the wealthiest Americans who saw their incomes increase dramatically, and their income tax rates drop dramatically, most families were frantically running in place, trying desperately not to fall even farther behind. The recession that officially began last summer, but was being felt in regions of the country long before then, certainly hasn't helped to ease the economic insecurity that American families live with on a daily basis.

The economic entrapment of American families is in part due to changes in the national economy -- changes that created millions of new jobs in the service sector. But these new jobs are lower paying than the jobs they replaced in the manufacturing sector of the economy and they lack the long-term security and benefits that used to be considered standard, such as health insurance.

Real wages have not grown since 1973. As a result, between 1977 and 1990, middle-income families saw their real income decline by six percent. For moderate income families, the drop was nine percent. And after-tax declines were even steeper, averaging an additional percentage point for each income group.

Instead of making income distribution more equitable, changes in federal tax policy only added to the growing income disparity between the very rich and the rest of Americans. According to a recent study, the percentage of income paid in federal taxes by the richest one percent of Americans will decline 18 percent between 1977 and 1992, while the percentage of income that middle-income households will pay will remain unchanged.

Skyrocketing prices for child care, housing, medical care and college education also have contributed to the economic squeeze on families. Families spend more than $15 billion a year for child care, not counting any subsidies that they might be receiving. The median sales price for existing single-family homes nationwide rose from $23,000 in 1970 to $95,000 in 1989. Barring a major overhaul of the health care system, families can anticipate their out-of-pocket health care expenses to increase by 512% between 1980 and 2000, from $63 billion to $386 billion. And this doesn't even include the cost of health insurance premiums.

The cost of a college education is rapidly becoming so expensive that families are having to go even deeper in debt to pay for it. In 1986/87, the average annual cost of postsecondary education ranged from $4,138 at a public institution to $10,039 at a private one. The comparable costs ten years earlier (1976/77) were $1,935 and $3,977.

Now more than ever, with declining incomes and rising household expenditures, families must struggle to stay afloat. In 1988, the level of household debt relative to disposable income reached a post World War II high of 94%.

TAX BURDEN TIGHTENS SQUEEZE

While rising prices for necessities and stagnating income levels triggered an economic crisis for many families, the increasing tax burden on families has exacerbated the problem. For too long America's families -- especially middle-income families -- have been footing more than their fair share of the nation's tax bill.

The shift in the tax burden away from corporations and the wealthiest of Americans to middle America, and particularly to families, is unambiguous. In 1967, federal revenues raised from corporate taxes were four percent of Gross National Product (GNP). About 20 years later, they were half of that. During that same period of time, social security payroll taxes went up and personal income taxes took a bigger bite out of families' take home pay. As a result, even though the 1986 tax reform law was supposed to lower taxes for all families, the effective tax rate for low- and middle-income families was higher in 1990 than it was in 1980.

The current tax burden on families is a far cry from the original federal income tax structure. In 1913, when the first federal income tax act was passed, there was a $3,000 personal exemption for each

taxpayer and a $1,000 exemption for his or her spouse. There was no dependent exemption, but the standard tax rate was just one percent, which was accompanied by a surtax of one to five percent. The high personal exemption played the role of today's personal exemption and the standard deduction, and it was sufficiently large so that only a small portion of citizens owed any tax at all.

By 1948, the personal exemption was set at $600 for single taxpayers and dependents and $1,200 for couples and heads-of-households. More importantly, this per person $600 exemption equalled 40% of per capita personal income, and resulted in a significant reduction in taxes for families with dependent children.

Since that time, the value of these exemptions has continued to erode due to inflation. Although the 1986 tax reform law doubled the personal and dependent exemptions to $2,000 and indexed them for inflation (they are $2,150 in 1991), they represent only 11% of per capita personal income. Clearly, this modest increment was not enough to make up for nearly forty years of erosion in the value of these exemptions to families. In fact, to be equivalent to that $600 today, the personal exemption would have to be nearly $7,800.

Tax rates have also increased significantly. In 1948, median family income for a family of four was $3,187 and families paid just three-tenths of one percent of their income in federal income taxes. Social security taxes were two percent of wages. By 1989, median family income for a family of four had risen to $40,763, but families were paying more than seven percent of their wages in social security taxes alone. All in all, families were paying 25% of their incomes for federal, state, local and social security taxes. This is nearly double the 14% tax burden of 30 years ago.

FAMILY TAX COMPROMISE

A **significant** increase in the size of the dependent exemption will cut the tax burden on America's families. And it will re-establish the principle, which somehow disappeared a long time ago from the tax code, that the increased financial burden that parents undertake in raising children must be acknowledged in the way the federal tax code is structured.

Increasing the dependent exemption from its current level of $2,150 to $3,500 will not be cheap, but it is **doable** and it is doable **now**.

The major advantages of increasing the dependent exemption over other proposals -- such as converting the exemption into a refundable tax credit -- are its simplicity and its cost. Yes, it would be nice to give families a bigger tax break. But we have to start somewhere and we have to take into account some realistic budgetary constraints.

This Congress has pending H.R. 1277, which would increase the dependent exemption to $3,500 for children under the age of 18. However, H.R. 1277 contains no revenue-raising provisions to offset the cost of the increase in the exemption.

That limitation would be addressed by including revenue-raising provisions, similar to those included in H.R. 2242, the "Working Family Tax Relief Act of 1991" bill, that will offset the cost without imposing regressive taxes on those families least able to pay them. Such legislation could raise the necessary revenue in part by establishing a fourth tax bracket -- 36% -- that would start at the following levels: $150,000 for joint filers; $90,000 for single filers, and $128,000 for heads-of-households. The remainder of the revenue would come from the imposition of a surtax that begins at 5% for taxpayers with taxable incomes in excess of $500,000 and increases to 10% for taxpayers with taxable incomes in excess of $1,000,000.

Increasing the dependent exemption to $3,500 would cost less than one-half of the proposal to convert the dependent exemption into a refundable $800 tax credit, and would provide more tax relief for middle-income taxpayers (TABLE 2). Furthermore, it would not entail an extensive rewrite of tax forms or a massive public education campaign to explain the enhanced benefits to families.

CONCLUSION

The enormity of the crisis affecting millions of America's children is overwhelming. Unfortunately, the breadth of the problem has led us into inaction, uncertain of how or where to begin.

This is a plan of action that Congress can act on with confidence. It is based on a solid foundation of evidence. It begins with the basics: healthy bodies and healthy minds. It provides parents with more money in their pockets to help meet their children's basic needs. It protects our nation's children, and it strengthens America's families.

It is time for Congress to accept responsibility for the national crisis that confronts us and to act responsibly, just as Congress has acted in other times of national crisis.

If we don't act now, we will have lost yet another generation of children who desperately need a hand up to succeed so that they, in turn, can provide a hand up to the next generation.

If we don't act now, it testifies to a lack of will, not a lack of opportunity. Congress should accept the challenge and the responsibility.

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TABLE 1

COST OF PHASING IN FULL FUNDING FOR
HEAD START, WIC, AND CHILDHOOD IMMUNIZATION
(in Budget Authority
Costs Above Baseline)

	FY 1992	FY 1993	FY 1994	FY 1995	FY 1996
HEAD START	$ 1.1 b	$ 2.4 b	$ 3.7 b	$ 5.1 b	$ 6.5 b
SPECIAL SUPPLEMENTAL FOOD PROGRAM FOR WOMEN INFANTS AND CHILDREN (WIC)	$ 256 m	$ 562 m	$ 866 m	$ 1.26 b	$ 1.66 b
CHILDHOOD IMMUNIZATION[1]	$ 81 m	$ 94 m	$ 107 m	$ 121 m	$ 135 m
TOTAL	**$ 1.44 b**	**$ 3.06 b**	**$ 4.67 b**	**$ 6.48 b**	**$ 8.30 b**

[1] Cost above FY 1991 appropriation, rather than CBO baseline.

TABLE 2

VALUE OF DEPENDENT EXEMPTION VS. CHILD TAX CREDIT

Tax Bracket	$2,150 Exemption ('91 est.)	$2,300 Exemption ('92 est.)	Proposed $800 Credit	Proposed $3,500 Exemption
15%	$ 323	$ 345	$ 800	$ 525
28%	602	644	800	980
31%	667	713	800	1,085
36%	---	---	800*	1,260*

* Under current law, the dependent exemption begins to phase out at incomes over $150,000 for joint returns, $125,000 for heads of households, and $100,000 for single taxpayers.

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